STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**04/28/99**	Bill No:	**AB 1125**
Tax:	**Property**	Author:	**Ashburn**
Board Position:		Related Bills:	

BILL SUMMARY:

This bill would provide a partial deferral of property taxes in periods where the wellhead price for oil is below $13 per barrel and the price used by the assessor in making the current year's assessment exceeded the price oil producers actually received. With respect to the Board, it would require that the form used to request property tax deferral be prescribed by the Board.

ANALYSIS:

Current Law:

Under current law, annual property tax bills must be mailed by the county tax collector by November 1 of each year. Property tax bills are payable in two installments which must be made by December 10 and April 10 of each year. There are no provisions to defer taxes due in periods of depressed economic conditions.

Proposed Law:

This measure would, with respect to a county for which active drilling permits issued to independent oil producers have declined by 40% or more as compared to the immediately preceding calendar year or to 1998, authorize the deferral of a specified portion of the property taxes levied on oil producing real property located in that county if (1) the taxpayer applies for deferral by September 15 and (2) the crude oil price applied by the assessor in assessing that property is greater than the average price of the Kern River 13° (API gravity) from January 1 to July 31, inclusive. This bill would provide for this deferral for 5 years or until the Kern River 13° (API gravity) price is equal to or greater than $13 per barrel for 6 consecutive months. The state would backfill the county for the loss of any taxes deferred.

COMMENTS:

1. **Sponsor and Purpose.** This measure is sponsored by the California Independent Petroleum Association in an effort to provide property tax relief in times of extremely low oil prices. According to the association, sustained periods of historically low heavy crude prices puts 1/3 of California's production at risk. In January of 1999, the price of crude oil offered at California refineries was at a 25-year low.
2. **This measure would only defer a part of the property taxes due on oil producing property.** The deferral amount would be the difference between the assessor's lien date price and the average monthly posting price for Kern River 13°

price between January 1 to July 31. In years where the assessors price is lower than the actual average price, this bill would have no impact.

3. **Deferral would be available at the taxpayer's option.** Some producers may be sufficiently financially secure and may not choose to defer their property taxes. The Board would be required to prescribe the form used by taxpayers to request deferral.

4. **To be eligible for deferral, the value used by the assessor for the January 1 lien date assessment must have exceeded the actual average value.** Currently 20 counties produce oil and each assessor in those counties may set their own price. For example, in Kern County, the largest county producer of oil, the Kern River oil price used in making 1999 tax year assessments was $9.50 per barrel. If the average price by July 31 exceeds $9.50, then oil producers in Kern County would not be eligible for property tax relief for this year. (The actual average price of Kern River crude oil from January 1 to April 24, 1999 was $8.54 per barrel.)

5. **This bill would not apply in any year where the price of Kern River 13° (API gravity) exceeds $13 per barrel for six consecutive months.** In some years the partial property tax deferral would not be available even if the crude oil price used by the assessor was greater than the actual average price.

6. **Since January, the price of Kern River Crude has risen from a low of $7.50 to a price of $12.25 on April 30.** The price of oil can change multiple times per day or may remain stable for several days. As of April 30, 1999, the price paid for Kern River Crude was $12.25 at the Tosco Refinery. The average price of oil from January 1 to April 28 was $8.54.

7. **The term independent oil producer lacks definition.** It is unclear whether or not spin off companies of major oil producers would be treated as independent oil producers. The impact of mergers, consortiums, and joint ventures on a classification as an "independent oil producer" is also uncertain.

COST ESTIMATE:

The Board would incur absorbable costs related to informing and advising local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE:

Background, Methodology, and Assumptions

AB 1125 would apply to independent oil producers located in counties where the active drilling permits have declined by 40 percent or more as compared to the immediately preceding calendar year or to 1998. The partial deferral of property tax would not go into effect unless the crude oil price applied by the assessor is greater than the average actual crude oil price as determined by the monthly posting price for Kern River oil field (13 degree API gravity) from January 1 to July 31. The deferral amount would only include the property tax on the difference in assessed value using the average actual crude oil price determined above compared to the assessed value using the crude oil price applied by the assessor.

The deferral period would end when the property granted deferral is sold or the average monthly posting price for Kern River (13 degree API gravity) crude oil reaches or exceeds $13 per barrel for 6 consecutive months. AB 1125 would limit the deferral period to 5 years.

Since a portion of the property tax would be paid in the future, the revenue impact is in the interest lost because of the deferral. The revenue loss for future periods cannot be determined because of the volatility of oil prices and the number of variables impacting the amount of assessed value deferred as well as the period of deferral. The assessed value of developed gas and oil mineral rights properties for 1998-99 was about $14,000,000,000. Assuming 10 percent met the requirements for deferral and an interest rate of 5.265 percent (the current Pooled Money Investment Fund rate), the estimated loss at the basic 1 percent property tax rate for the first year of deferral would be calculated as follows:

1998-99 Assessed Value		14,000,000,000
1998-99 Property Tax	$14,000,000,000 x .01	140,000,000
Property Tax Subject to Deferral	$140,000,000 x .10	14,000,000
Annual Revenue Loss	$14,000,000 x .05265	737,100

Revenue Summary

For every 10 percent of the total property tax that is deferred, there would be an estimated loss in interest of $737,100 per year of deferral.

Qualifying Remarks

Although the proposed bill indicates this deferral would apply to independent oil producers only, without a definition of independent oil producers contained within the bill, the total assessed value of independent oil producers cannot be determined. It is unclear whether or not spin off companies of major oil producers would be treated as independent oil producers. The impact of mergers, consortiums, and joint ventures on the classification as an independent oil producer is also uncertain.

Analysis prepared by:	Rose Marie Kinnee	445-6777	5/04/99
Revenue estimate by:	Rhonda L. Krause	445-0840	
Contact:	Margaret S. Shedd	322-2376	

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